

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EA-07 AID-05 CEA-01 CIAE-00 COME-00

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FM AMEMBASSY ROME

TO SECSTATE WASHDC 4362

INFO USMISSION OECD PARIS

USMISSION EC BRUSSELS

AMCONSUL MILAN

AMCONSUL NAPLES

AMCONSUL GENOA

AMCONSUL FLORENCE

AMCONSUL TURIN

AMCONSUL TRIESTE

AMCONSUL PALERMO

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5. COLOMBO ENVISIONS "MASSIVE PLACEMENT" OF CORPORATE BONDS AND STATE SECURITIES WITH PUBLIC AS ONE MEANS OF ASSISTING BUSINESS INVESTMENT IN LESS INFLATIONARY WAY THAN CURRENT METHOD OF FORCED INVESTMENTS BY COMMERCIAL BANKS IN SPECIAL CREDIT INSTITUTE BONDS. PUBLIC PARTICIPATION IN BOND MARKET MIGHT REACH 2 TO 2 1/2 PERCENT OF NATIONAL INCOME AS IT DID IN 1970. ANOTHER FINANCIAL MEASURE COLOMBO HOPES TO USE IS GREATER EFFORT TO INCREASE GOVERNMENT REVENUES THROUGH REDUCING TAX EVASION.

6. INDUSTRIAL RESTRUCTURING. MAJOR NEW THRUST OF
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MEDIUM-TERM PROGRAM IS PLAN FOR RESTRUCTURING OF INDUSTRIAL SECTOR. CHIEF AIMS OF PLAN SEEM TO BE:

(A) TO AVOID FURTHER FINANCIAL BURDEN ON BUSINESSES FROM EXCESSIVE WAGE AND SOCIAL BENEFIT INCREASES,

(B) TO INCREASE LABOR MOBILITY SO THAT MORIBUND INDUSTRIES AND FIRMS CAN BE ALLOWED TO DIE WHILE POTENTIAL GROWTH INDUSTRIES CREATE NEW JOBS, (C) TO RAISE CAPITAL INVESTMENT AND RESEARCH EXPENDITURES SO AS TO CREATE MODERN AND EFFICIENT PRODUCTIVE CAPACITY, AND (D) TO RE-ESTABLISH DEPENDABLE LONG-TERM SOURCE OF EQUITY AND LOAN CAPITAL FOR FINANCING INVESTMENT.

7. TIME HAS CLEARLY COME FOR NATIONAL EVALUATION OF SOCIAL COSTS ABSORBED BY INDUSTRY AT EXPENSE OF INDUSTRIAL CAPACITY TO EXPAND AND WORLDWIDE COMPETITIVENESS. EFFORT WOULD BE MADE TO REDUCE RISE IN COST OF LABOR SO THAT ITALIAN WAGE RATES, WHICH ARE ALREADY EQUAL TO AVERAGE IN OTHER MAJOR INDUSTRIALIZED COUNTRIES, WOULD RISE SEVERAL PERCENTAGE POINTS LESS THAN AVERAGE. THIS WOULD BE ACCOMPANIED BY INCREASED PRODUCTIVITY AND GREATER MOBILITY OF LABOR FORCE. SOME SPECIFIC TARGETS TO ACHIEVE THESE GOALS ARE LOWER ABSENTEEISM, REDUCTION IN NUMBER OF HOLIDAYS AND ARRESTING TENDENCY TOWARD SHORTER AND SHORTER WORK WEEKS.

8. PROPOAL FOR 3,000 BILLION LIRE "INDUSTRIAL RECONVERSION FUND" AND 800 BILLION LIRE FUND FOR RESEARCH WOULD HELP ITALIAN BUSINESS TO MAKE INVESTMENTS ON SCALE REQUIRED TO EXPAND AND MODERNIZE INDUSTRY AND MAKE IT MORE COMPETITIVE. AT SAME TIME, SOMETHING MUST BE DONE TO RE-ESTABLISH SOUND FINANCIAL STRUCTURE FOR ITALIAN FIRMS. IN RECENT YEARS BECAUSE OF UNDERDEVELOPMENT AND POOR PERFORMANCE OF STOCK MARKET AND LOW CORPORATE PROFITS, RISK CAPITAL FOR INVESTMENT HAS BECOME SCARCE. BUSINESS HAS INCREASINGLY BECOME DEPENDENT ON FIXED-INTEREST BORROWINGS, ESPECIALLY BANK CREDIT, TO FINANCE LONG-TERM INVESTMENT. VARIOUS SCHEMES ARE NOW BEING DISCUSSED FOR RE-FUNDING BURDEN OF FIXED INTEREST DEBT AND FOR SUBSTITUTING EQUITY CAPITAL AND LONG-TERM LOAN CAPITAL AS SOURCES FOR FINANCING FUTURE BUSINESS INVESTMENT. WHILE PRESENT MEDIUM-TERM PROGRAM LIMITED OFFICIAL USE
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DOES NOT DIRECTLY ADDRESS THIS PROBLEM, PLAN FOR RE-STRUCTURING INDUSTRIAL SECTOR AND FOR RE-ESTABLISHING SOUND FINANCIAL BASE FOR BUSINESS ARE INTIMATELY LINKED.

9. INITIAL REACTIONS. WHEN PROGRAM WAS ORIGINALLY OUTLINED BY MINTREAS COLOMBO IN EARLY OCTOBER, IT WAS WIDELY CRITICIZED BY LABOR UNIONS AND OTHER FOR LACK OF COHESION AND DETAIL. DURING SUBSEQUENT STAGE OF ELABORATION, COLOMBO'S REITERATION OF INTENT TO CONSULT LABOR AND GOVERNMENT PARTIES AND ASSOCIATION OF MANUFACTURERS (CONFINDUSTRIA) BEFORE SUBMITTING DOCUMENT TO PARLIAMENT HAS KEPT PACKAGE IN NEWS AND INCREASED

AURA OF EXPECTATION. CONSULTATIONS HAVE NOW NEARLY BEEN COMPLETED AND PACKAGE WILL REPORTEDLY BE PRESENTED FOR DISCUSSION IN PARLIAMENT DURING WEEK OF NOVEMBER 24-28.

10. BOTH REPUBLICANS (PRI) AND CHRISTIAN DEMOCRATS (DC) HAVE GIVEN THEIR GENERAL BLESSING TO DOCUMENT BUT OTHER POLITICAL PARTIES HAVE BEEN QUITE CRITICAL. MAJOR CRITICISMS OF PACKAGE TO SURFACE THUS FAR FROM ROUND OF CONSULTATIONS ARE: (A) PROGRAM, INDEED, IS NOT A LONG RANGE PLAN WHICH SWEEPINGLY ADDRESSES ALL OF COUNTRY'S ILLS, BOTH SOCIAL AND ECONOMIC, (B) PACKAGE ADDRESSES WRONG PROBLEMS, ACCORDING TO COMMUNISTS (PCI), I.E., QUANTITIES OF CONSUMPTION AND INVESTMENT AND NOT QUALITY OF INVESTMENTS, (C) PROGRAM DOES NOT INCLUDE MANY REFORMS SOUGHT BY SOCIALISTS (PSI) SUCH AS URBAN REFORM, EMPLOYMENT MAINTENANCE, INDUSTRIAL POLICY, AND LOCAL GOVERNMENT FINANCING (PSI HAS ISSUED VEILED THREATS THAT IF PACKAGE IS NOT COMPLETELY ACCEPTABLE TO LABOR, PSI WILL NOT SUPPORT IT EVEN TO EXTENT OF TRIGGERING GOVERNMENTAL CRISIS), AND (D) PACKAGE WILL FALL SHORT OF RESTORING CONFIDENCE OF ENTREPRENEURS, ACCORDING TO CONFINDUSTRIA, TO EXTENT NEEDED TO INSURE THEM OF SUFFICIENT MANAGERIAL FREEDOM AND ACCESS TO INVESTMENT FINANCING. REACTION OF LABOR UNIONS THUS FAR HAS BEEN MUTED, BUT THEY DID NOT FAIL TO NOTE THAT GOVERNMENT WAS PREPARED TO CONCEDE TO THEM THAT WHICH INDUSTRY CONTINUES TO DENY; I.E., A STRONGER SAY IN USES OF INVESTMENT FUNDS. (MEDIUM-TERM DOCUMENT ALLUDES TO POSSIBLE CREATION OF LIMITED OFFICIAL USE
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TRIPARTITE SECTORAL PLANNING COMMISSION TO INDUSTRIAL SECTOR, WHEREAS ISSUE OF LABOR PARTICIPATION IN INVESTMENT PLANNING IS ONE OF THORNIEST IN PRESENT SERIES OF LABOR NEGOTIATIONS AND ONE ON WHICH CONFINDUSTRIA HAS ADAMANTLY REFUSED TO GIVE GROUND.)

11. COMMENT. DOCUMENT IS INDEED NOT A PLAN NOR A BLUEPRINT FOR THE FUTURE. HOWEVER, GOVERNMENT HAS WISELY RETAINED INITIATIVE BY FOLLOWING UP ANTI-RECESSION PACKAGE OF SUMMER WITH LONGER-TERM PACKAGE WHICH PICKS UP WHERE SOME OF ANTI-RECESSION MEASURES LEFT OFF. AT SAME TIME, PACKAGE ITSELF IS HASTILY PUT-TOGETHER AND SMACKS SOMEWHAT OF POLITICAL EXPENDIENCY. THIS HAS MADE PLAN EASY TARGET FOR UNIONS, BUSINESS, PCI AND ESPECIALLY PSI, WHICH IS USING OPPORTUNITY TO MOVE AWAY FROM RESPONSIBILITY FOR ECONOMIC POLICY SO AS TO ESTABLISH DISTINCT IDENTITY, WHILE STOPPING SHORT OF PROVOKING GOVERNMENT CRISIS.

12. DOCUMENT ALSO FAILS TO SET OUT HOW PROGRAMS WILL

BE FINANCED, PARTICULARLY IN FACE OF RISING CASH BUDGET
DEFICITS. IN ADDITION, IT DOES NOT INDICATE CLEARLY
MECHANISM THROUGH WHICH PROGRAM WOULD BE IMPLEMENTED,
ALTHOUGH THERE IS STILL TIE TO WORK THIS OUT. COLOMBO
HAS STATED THAT PACKAGE WILL NOT BE IMPLEMENTED
THROUGH A SINGLE PARLIAMENTARY ACT BUT THROUGH A SERIES
OF DISTINCT LAWS. BEAUDRY

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